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Committee on Administration and Finance
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FOR ACTION

UNITED NATIONS CHILDREN'S FUND REPORT ON HEADQUARTERS OFFICE ACCOMMODATION

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions considered the Executive Director's report on headquarters office accommodation (E/ICEF/1993/AB/L.15). During its consideration of the report, the Committee received additional information from representatives of UNICEF and the United Nations.

2. The Committee recalls that the Executive Board, in its decision 1993/22 (E/ICEF/1993/14), requested the Executive Director:

> "... to obtain from the United Nations Development Corporation (UNDC) New York City and from the City of New Rochelle by 30 June 1993, ... firm offers which should include guaranteed space availability at a minimum of 40,000 square feet starting 1 August 1995, guaranteed financing arrangements, firm costed offers for full or condominium ownership of land and building(s) ... and common validity dates ...;
>
> "... to analyse each of these final and firm offers with the input of an independent real estate consultant ...;
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> "... to submit the final offers and his analysis and possible recommendations in a concise format with the full text of the lease purchase offers to the Advisory Committee on Administrative and Budgetary Questions by 31 July 1993".

I. GENERAL OBSERVATIONS

3. The Committee has carried out a detailed review of the Executive Director's report and related documents, including the proposals of the New York City Economic Development Corporation (NYCEDC) and New Rochelle, the study by the

real estate consultancy firm, Richard Ellis Inc., and the evaluation report on architecture and engineering by Sverdrup and Parcel Consultants, Inc.

4. The Committee experienced a number of difficulties in examining the Executive Director's proposals. First, there is no reference to the Committee's observations and recommendations in its last report (E/ICEF/1993/AB/L.2), nor an explanation of the changes in the proposals by New York City (NYCEDC/UNDC) and New Rochelle since the issuance of the previous UNICEF report (E/ICEF/1993/AB/L.9), some of which went beyond clarification. Among other shortcomings of the report, a number of observations and conclusions, especially on non-financial issues, have not been substantiated by quantifiable data or by any other form of data.

5. The Committee notes that following issuance of the document containing the firm and final offer of New Rochelle in June 1993, NYCEDC/UNDC changed the format of its presentation so that it is similar to that of New Rochelle. The Committee further notes that following the deadline of 18 June 1993 for the submission of firm and final offers by New York City and New Rochelle, NYCEDC/UNDC amended substantially its final offer in July and August 1993, as shown in the summary of the NYCEDC/UNDC proposal (E/ICEF/1993/AB/L.15, p. 51) and additional information provided to the Committee. The Committee points out that the amendments were of a substantive rather than clarifying nature. According to the executive summary of the consultant (E/ICEF/1993/AB/L.15, annex, para. 73), NYCEDC/UNDC has reduced the cost of their proposal in May 1993 by approximately $40 million in present value terms.

6. The Committee is of the opinion that the recommendation in its last report (twin locations - New Rochelle owned/Manhattan rented) was not properly followed up, although the Executive Board, in its resolution 1993/22, had requested UNICEF to analyse that option (see para. 23 below). The Committee is not satisfied with the presentation of that option.

7. The Committee is of the view that the comments of the Executive Director and the consultant's report emphasize the non-financial aspects; moreover, these have not been substantiated by firm or quantifiable data. In response to questions, the representative of the consultancy firm stated to the Committee that its views on the non-financial or non-quantifiable issues were, in fact, outside its area of professional expertise. The Committee believes that certain aspects of the consultant's report are based on subjective criteria, for example "the decision to relocate to New Rochelle may damage relations with the City of New York ... Remaining partly in Manhattan will continue to remind New York City of the abandonment of UNICEF" (E/ICEF/1993/AB/L.15, annex, para. 70).

8. The consultant states that a financial analysis based on present value is "the only effective method of comparing alternatives" (E/ICEF/1993/AB/L.15, annex, para. 59). In that case, the Committee notes that the present value and nominal value analyses resulted in different conclusions. Upon inquiry, the Committee was informed by the consultant that in its calculations the present value comparison was affected significantly by the impact of the assumptions made about UNICEF liabilities under its current lease to UNDC for space that would no longer be required at UNICEF House (see para. 23 below) and the timing of this obligation. The consultant also draws attention to the degree of uncertainty affecting some of the costings underlying the calculations. The

total firm costs/benefits are about 90 per cent accurate, while the soft costs/benefits are considered to be only 50 to 70 per cent accurate. Furthermore, according to the consultant, "the residual value is very questionable as it is subject to so many external factors that UNICEF will have no control over" (E/ICEF/1993/AB/L.15, annex, para. 61). The Committee recognizes the merits of the present value analysis, but considers that the proposals in the report need to be viewed in a broader context of costs and benefits.

9. The Committee, in paragraph 62 of its report (E/ICEF/1993/AB/L.2), recalls that:

> "The Committee was not fully convinced that the staff at UNICEF headquarters would continue to increase as planned, given the projected decline in income and the planned transfer of project posts to the field (see paras. 6, 53 and 54 above). The Committee, therefore, believes that a projected annual growth rate of less than 3 per cent would be more appropriate."

Nevertheless, upon inquiry, the Committee was informed that the Executive Director's assumptions are still based on a projected growth rate of 3 per cent. The Committee notes the statement of the consultant that:

> "The base assumption is that UNICEF headcount will grow and that this growth will continue to require office space in New York. Each option was analysed for its ability to satisfy exactly the growth expectations of the organization. However, these projections are at best questionable considering all that is transpiring at the United Nations with respect to organizational reform, the desire to minimize and even reduce headquarters staff growth in New York, and the premises needs of other United Nations-related agencies in New York. In this environment it is difficult to undertake a long-term premises view when the prospect for an organizational change (perhaps dramatic) appears to be very high" (E/ICEF/1993/AB/L.15, annex, para. 71).

In view of the foregoing, the Committee reiterates its view that the staff growth projections need to be revised, taking into account the decline in income, the transfer of project functions to the field and United Nations organizational reform.

10. In this connection, the Committee was informed that UNICEF had made economies in the use of office space for junior Professional (P-1/2) and General Service staff by decreasing the standard size of work stations from 76 to 56 square feet, as recommended by the Committee (E/ICEF/1993/AB/L.2, para. 63), which would further reduce the overall space requirements.

II. OBSERVATIONS ON THE MAIN OPTIONS

11. Notwithstanding the difficulties engendered by the format and presentation of the Executive Director's report (see paras. 3-10 above), and bearing in mind the shortcomings of many of the possible options, the Committee carried out a detailed review of the main proposals of NYCEDC/UNDC - UNICEF House/

633 Third Avenue owned or UNICEF House owned/other Manhattan rented - and the proposal of New Rochelle owned/Manhattan rented, in financial and non-financial terms, as well as of the risk factors for each option. In the light of the Executive Director's observations in his report (E/ICEF/1993/AB/L.15, paras. 19, 24 and 26-29), the Committee did not consider in detail the options of 685 Third Avenue and 845 United Nations Plaza.

633 Third Avenue single location owned

12. The Committee notes that this is the only option offering the non-financial advantage of accommodating the entire UNICEF headquarters staff in a single location near United Nations Headquarters. However, it appears to be the most expensive option among the remaining options described below and also had other disadvantages (see paras. 16 and 17 below).

UNICEF House/633 Third Avenue

13. According to table 7 of the report, the total firm costs/benefits by the year 2026 for the option UNICEF House and 633 Third Avenue (floors 14 to 27) owned amount to $516.3 million, including existing and new obligations as well as direct costs. The Committee recalls that on the date all UNDC bonds are paid, expected to be 1 July 2026, the City of New York and UNDC would transfer to UNICEF (or the United Nations) all ownership interest at UNICEF House subject to the following "at the time of the transfer, (i) all office space at UNICEF House is fully occupied by UNICEF or the United Nations and (ii) UNICEF's world-wide headquarters is then located in New York City" (NYCEDC/UNDC proposal, sect. V, alternative I). The transfer of ownership would give UNICEF (or the United Nations) the right to use or dispose of the property after the transfer. The Committee points out that there is a need to clarify the requirement of "UNICEF world-wide headquarters in New York City" in organizational terms, taking into account UNICEF's need for flexibility according to the changing needs of its operations.

14. The Committee notes that the offer of transfer of ownership of UNICEF House is with the proviso that at the option of the City, the operator of the United Nations Plaza Hotel will continue to be the operator of the building's garage space (NYCEDC/UNDC, sect. V, alternative I). Upon inquiry, the Committee was informed that the ownership transfer of UNICEF House would not include the garage under the building (consultant's report, appendix A). The Committee questions the exclusion of the garage from the ownership transfer since UNICEF would acquire ownership of the land and the building unconditionally, and recommends that UNICEF clarify this matter.

15. The Committee was informed that the City of New York receives from UNDC for the land on which One, Two and Three United Nations Plaza are built an annual rent of $2.7 million for the three buildings. The Committee notes that on 29 July 1993, NYCEDC/UNDC offered a base lease payment credit of $1,031,000 under the single location owned or twin headquarters locations owned/rented in Manhattan, which was confirmed by NYCEDC/UNDC in a memorandum to UNICEF dated 4 August 1993. The Committee understands that the "annual rent" of $2.7 million is in fact equivalent to real estate tax and the credit relates to UNICEF's share, the remainder being paid by the United Nations Development Programme (UNDP) and the United Nations (see para. 31 below).

16. The Committee points out that the disadvantages of 633 Third Avenue, which were listed in the Executive Director's previous report (E/ICEF/1993/AB/L.9, para. 26), have not been addressed in his current report (paras. 17 and 23). The Committee was informed that UNICEF will have a minority interest of approximately 27 per cent in the condominium. Under the circumstances, a number of important elements need to be clarified, such as the control UNICEF would have on management, services in the building and the level of security in the condominium building.

17. According to the report (E/ICEF/1993/AB/L.15, para. 17 (f)), the building 633 Third Avenue is currently subject to foreclosure. Upon inquiry, the Committee was informed that the completion of the foreclosure process is expected at the end of the year in the absence of an intervening bankruptcy filing by the property owner, which could delay the transfer of title. The Committee points out that the uncertainties and risks relating to the question of acquiring a condominium interest in a building under foreclosure proceedings have not been addressed in the report.

UNICEF House owned/other Manhattan rented

18. A number of issues need to be addressed with regard to this option. The location 333 East 38th Street houses the Greeting Card and related operations (GCO), with 131 staff in an area of 40,000 square feet of office space. The Committee is of the view that there is no need to retain the entire GCO, which had always functioned independently from UNICEF headquarters, in New York City, and that it could be moved outside Manhattan without impairing its programme delivery. The Committee recommends that UNICEF GCO, which is split between Geneva and New York, be reviewed in the context of the Executive Director's proposals on office space requirements of the UNICEF office and GCO in Geneva scheduled for its 1994 spring session with a view to enhancing cost-effectiveness and efficiency. The Committee is of the view that future GCO activities could be consolidated, which would reduce the space requirements and costs. The Committee notes further that the availability of office space at 333 East 38th Street is uncertain (E/ICEF/1993/AB/L.15, annex, para. 19) and the future availability needs to be clearly established.

19. As regards the building at One Dag Hammarskjöld Plaza, the Committee notes from the consultant's report (E/ICEF/1993/AB/L.15, annex, para. 21) that there is no schedule of availability of space that meets the requirements of UNICEF exactly over the long term, and the owner has not provided firm offers for the space. In response to a query, the representatives of UNICEF informed the Committee that the present contractual arrangement was a sublease.

20. According to the consultant's executive summary (E/ICEF/1993/AB/L.15, annex, para. 22), "in occupying space at 333 East 38 Street or One Dag Hammarskjold on a lease basis, UNICEF is liable for the payment of real estate taxes in excess of the base year real estate tax". The Committee recommends that UNICEF should pursue its negotiations with NYCEDC/UNDC that, in case of acquisition of UNICEF House and rent of any expansion building in New York City, UNICEF be exempted from payment of any real estate taxes in excess of the base year real estate tax. The Committee was informed that this would result in a reduction of about $57 million to $60 million in nominal terms over a 32-year period.

21. The Committee further notes that the Executive Director and the consultant did not indicate the negative implications of split headquarters accommodation in Manhattan (UNICEF House/633 Third Avenue owned or another location rented in Manhattan) on management, planning, coordination, communications, transportation, security and staff management relations. Bearing in mind that the space at UNICEF House is limited (180,491 square feet), and that considerable additional space is required by UNICEF, the Committee is of the view that the managerial and other disadvantages of operating from two separate, equally large headquarters buildings should have been clearly indicated, as requested by the Committee in its previous reports (E/ICEF/1991/AB/L.10, para. 64, and E/ICEF/1992/AB/L.18, paras. 56 and 62). The Committee is of the view that the presentation of the twin headquarters locations in Manhattan owned or rented does not address the disruptive effects of split headquarters. That issue is only addressed in the New Rochelle option.

New Rochelle

22. With regard to the New Rochelle option, the Committee recalls its recommendation in its last report that:

> "... the Executive Director [to] formulate a third option, a proposal that would incorporate the best features of both options, i.e. taking advantage of New Rochelle's offer for the greater proportion of UNICEF staff who could be relocated out of Manhattan with significant cost-savings to UNICEF and allowing for accommodation at UNICEF House or some other location in Manhattan only for those UNICEF officials most directly concerned with those activities for which continuing close proximity to United Nations headquarters is essential, together with appropriate short-term accommodation for those needing to visit Manhattan or to participate in activities or meetings at United Nations Headquarters" (E/ICEF/1993/AB/L.2, para. 78).

23. The Committee expresses its concern that its recommendation (see Executive Board decision 1993/22, para. 1 (c)) was followed up neither by the Executive Director nor by the consultant (see para. 6 above). In this connection, no detailed analysis is contained in the report to justify the large number of staff considered "essential" and, therefore, to be accommodated close to the United Nations for liaison, public relations and certain policy functions, or the related minimum space requirements and costs for leasing office space (E/ICEF/1993/AB/L.15, paras. 37 and 38 and annex, para. 70). According to the financial summary of the options expressed in nominal terms (E/ICEF/1993/AB/L.15, annex, table 7), the total costs of the twin locations proposal New Rochelle owned (400,000 square feet), plus UNICEF House or 333 East 38th Street rented (40,000 square feet), includes leasing 40,000 square feet until the year 2026 at UNICEF House or 333 East 38th Street. Upon inquiry, the Committee was informed that the net costs for leasing 40,000 square feet at UNICEF House for the 32-year period amount to a total of $77.6 million, including $14.7 million for the period 1995-2002 and $62.9 million for the period 2003-2026, not taking into account any other obligations and income from that and other locations. The Committee was further informed that 40,000 square feet at UNICEF House would comprise three floors (12,081 square feet per floor) for an estimated 160 staff and part of the card shop at UNICEF House.

24. In this connection, the Committee reiterates its view (E/ICEF/1993/AB/L.2, paras. 76-78) that in case of a headquarters move to New Rochelle, UNICEF would need only a small presence of not more than one floor (15,000 square feet) at UNICEF House for liaison and public relations close to the United Nations, which would further reduce the costs for the New Rochelle option and minimize the operational difficulties of split headquarters locations. The Committee further notes from the consultant's report (appendix D, para. 8) that "the balance of UNICEF House at approximately 140,000 square feet is estimated to be subleased at a cost of half of the remaining lease obligation". In that connection, the Committee notes that the consultant's decision to charge 50 per cent of the sublease obligations to the cost of the New Rochelle proposal is critical to the analysis of present value. The Committee believes that UNICEF should explore with the parties concerned ways and means to mitigate those costs. Furthermore, a number of related issues need to be clarified, such as the availability and costs of common services in New Rochelle. The Committee was informed that UNICEF is charged about $2.7 million per year by the United Nations Secretariat for common services provided by the United Nations.

25. With regard to the financial analysis, the Committee recalls the consultant's conclusion that "there is, even after all the adjustments, a difference in nominal terms of between 15 and 35 per cent (depending on the option compared) in costs between the New Rochelle and the New York City offers, in favour of New Rochelle" (E/ICEF/1993/AB/L.15, annex, para. 59), or $94.5 million in nominal terms between the two main options. In view of the presentation of the report, the Committee is of the view that both New Rochelle and NYCEDC/UNDC should be given a final opportunity to address the issues set out in the Executive Director's report.

26. The Committee was informed that if the City of New Rochelle did not charge UNICEF rent for the land for the period 1995-2026, it would result in a reduction of $12.2 million for a 440,000 square foot building, or $11.4 million for 400,000 square feet. The Committee notes that if UNICEF opts for a turnkey project like New Rochelle, UNICEF should be required not to exceed the cost of the agreed build-out allowance. In view of the difficulty of subleasing office space during the current soft real estate market, UNICEF may also approach the City of New Rochelle to guarantee subleasing the vacant office space in the newly constructed headquarters building as a condition for an agreement. Furthermore, with regard to 633 Third Avenue, the Committee was informed of the intention of the City of New York to sublease 75,000 square feet beginning in 2005, but the Committee did not receive firm assurances that the City would sublet the space or an indication of the financial arrangements underlying the offer.

27. With regard to the non-financial factors concerning the future location for UNICEF headquarters, the Committee was not convinced by the Executive Director's observations in paragraphs 40 to 57 of his report, which have not been substantiated by quantifiable data. For example, the Committee is of the view that UNICEF's world-wide advocacy role for women and children does not depend critically on its headquarters location, especially with UNICEF maintaining an adequate presence in New York close to United Nations Headquarters.

28. As regards UNICEF's capacity for fund-raising, the Committee notes that those activities are largely carried out in capitals and at conferences and

special events. With regard to UNICEF's contacts with the United Nations Secretariat, delegations and the public, the Committee recalls its view that "the number of senior UNICEF staff in the areas of policy formulation, public affairs and fund-raising who are in regular contact with the United Nations, permanent missions and the media is relatively small and that those contacts are usually done by modern telecommunications rather than on a personal basis" (E/ICEF/1993/AB/L.2, para. 76). The Committee was not presented with any data which it could evaluate objectively to make it revise that view.

UNICEF management review

29. The Committee recalls that the Executive Board, in its decision 1993/23, had decided that an independent administrative and management review of UNICEF should be carried out by external consultants, in close cooperation with the UNICEF secretariat, taking into account the current restructuring and revitalization of the United Nations system, the efficiency of management, administrative structures, functions and support services, and requested the Executive Director to submit that study to the Board in 1994. The Committee believes that the outcome of this management review and its execution will determine the future organization and structure of UNICEF, in particular its degree of decentralization, and could lead to different projections for the number of headquarters staff and projected space requirements. The policy decision on UNICEF headquarters accommodation needs to take the outcome of that review into account.

Coordination of United Nations office space requirements

30. The Committee further notes that all United Nations entities in New York had until now separate and uncoordinated approaches to meeting their office space requirements. In that connection, the Committee was informed that a Coordination Committee on the Common Premises in the Headquarters District with the participation of representatives of the United Nations Secretariat, UNDP, the United Nations Population Fund and UNICEF has recently been established to collect information on the overall office space needs of the United Nations entities located in the New York area and to discuss matters of common concern pursuant to General Assembly resolutions 44/211, paragraph 15 (d), and 47/199, paragraph 42, in which the Assembly:

> "... welcomes the decision of the Joint Consultative Group on Policies to set a target for increasing the number of common premises, while emphasizing that this should be achieved in cooperation with host Governments in a way that increases efficiency through, inter alia, consolidation of administrative infrastructures of organizations concerned, without increasing the costs for the United Nations system or for developing countries".

31. The Advisory Committee was further informed that the above Coordination Committee will establish a working plan for a coordinated approach to issues related to common premises and will submit its recommendations to the appropriate United Nations bodies in 1994. The Committee trusts that that coordinated approach will also address related cost issues such as the possibility of obtaining reduced utility and water rates such as those that are available to non-profit organizations for all United Nations premises in

New York City. An effort should also be made to obtain the abatement of the de facto payment of real estate taxes by UNDP and the United Nations in respect of their premises in UNDC I and II (see para. 15 above).

III. CONCLUSION

32. In the above paragraphs, the Committee has presented a number of observations on each of the major options now before the Executive Board. Those observations are made on a technical basis. The Committee recognizes that this issue has been under consideration since 1990 and that it is the Executive Board's intention to take a decision at its special session this year. However, the Committee is of the opinion that a number of important issues must be resolved prior to a final decision by the Executive Board. These issues include:

(a) Revision of staff projections and space requirements;

(b) Impact of UNICEF management review;

(c) Exemption from land/real estate taxes;

(d) Issues related to foreclosure of the building at 633 Third Avenue;

(e) Clarification of non-financial factors;

(f) Possibility of substantial further improvement of the proposals;

(g) Coordinated approach to the question of space requirements for other United Nations agencies and programmes in New York.